

UDC 339.7:336.71(477:0611ЄС)

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THE MONETARY POLICY OF THE NATIONAL BANK OF UKRAINE IN THE CONTEXT OF THE EUROPEAN ECONOMIC INTEGRATION

МОНЕТАРНА ПОЛІТИКА НАЦІОНАЛЬНОГО БАНКУ УКРАЇНИ В КОНТЕКСТІ ЄВРОПЕЙСЬКОЇ ЕКОНОМІЧНОЇ ІНТЕГРАЦІЇ

Summary. The problems of choosing the directions of economic cooperation between Ukraine and the European Union in the monetary sphere, a role of the Maastricht integration criteria are analyzed, a necessity of changing the priorities of the monetary policy of the National bank of Ukraine, improvement of the banking legislation in accordance with the stabilization requirements and creation of the favourable conditions for the development of the national economy are shown in this article.

Key words: Maastricht integration criteria, National bank of Ukraine, monetary policy, inflation.

Introduction and problem statement. Modern processes of economic globalization define the trends of transformation of Ukraine's economy and its monetary sphere as a member of the European economic community. Their essential feature is the increasing interdependence of national economies, a weave cash flow through the increased openness of national markets, the development of international division of labor in various forms.

One of the most visible manifestation of globalization is a rapid growth of the European and global financial markets, triggered by the substantial liberalization of foreign exchange markets and monetary integration. The events of the last decade (especially the world financial-economic recession of 2008-2009) attracted the attention to the international financial problems with a new intensity. The crisis in the monetary and financial spheres force national banks of certain countries and the international financial institutions seek mechanisms and tools that would stabilize their monetary systems as an essential condition for the general stabilization of the national economy.

Analysis of recent research and publications. Processes of functioning of the monetary sector and the regulatory role of national banks have been studied by many domestic and foreign scientists. A significant contribution to the development of the theoretical, methodological and practical aspects of a national monetary policy was made by A. Halchynsky A. Dzyublyuk, I. Zarytska, V. Kovalenko, S. Korablin, A. Kuznetsov, S. Kul-pinsky, I. Liyty, V. Mischenko, O. Rogach, A. Shnyrkov and others. However, the issues of content and timeliness of the application of specific mechanisms and instruments for achieving the purposes of a monetary policy by the National Bank of Ukraine (NBU) need further investigations with consideration of current banking legislation of Ukraine and current situation in its monetary sphere.

The aim of this work is to deepen the theoretical and methodological approaches to the justification of the content

of NBU monetary policy in the context of the European economic integration.

Research results. A specific feature of modern economic globalization is that the growth of the regulatory role of international financial markets in the global economy over the past two decades greatly weakened the effectiveness of traditional instruments of central banks such as interest rates and exchange rates. The proof of this is a devaluation of currencies in a number of East Asian countries and Russia in 1997-1998 and in 2008-2009. It is a high integration of international financial markets that is seen now as a cause of significant fluctuations of exchange rates, interest rates and rates of securities. With this in mind, an effective control of the events of this type can be realized only by an international coordination of a monetary policy.

On the other hand, a growing influence of the international financial markets is an element of the control over the activities of central banks. The reason is that a deviation of the central bank from the course of the price stability in the spheres of the financial or tariff policy will cause a response from the financial markets in the form of a capital outflow or depreciation of the exchange rate of a country's currency (in the case of an inflation development).

With the transition to the regime of a "free floating" of the exchange rates, provision of an unlimited currency conversion, an abolition of the control over the capital movements, a transformation of the structure of the instruments of the European Central Bank (ECB) has become very noticeable. The main component of the tools of the ECB are open-market operations which, by their content, are more marketable than a discount policy and minimal reserves that are still used in some EU countries (e.g., Germany). Modern communication opportunities, new financial tools and daily trading volumes up to \$3 trillion on the global financial markets are seen as only some explanations of this transformation [5, p. 370].

The coordinating work of the ECB takes into account differences in the structures of the national financial markets that fully reflect historically caused types of national financial culture. For example, in Germany a dominant role is played by the so-called universal banks that offer a complete list of banking services (deposit, credit and investment operations). At the same time, in other countries a division of credit institutes on the banking and investment ones is practiced. The first group acts as a counterparty in the transactions with the ECB and must follow the requirements for the minimal reserves; the second group is not connected with ECB by any obligations. A German banking system is characterized by the market presence of many small credit institutions in the form of saving banks and cooperative banks, for which a main tool is a discount refinancing loan (this practice is also common in the Netherlands and Austria). Conversely, in other countries large banks that have accesses to the resources of the central bank via market transactions on the open market dominate (the United Kingdom) [3, p. 144].

If we evaluate a current monetary policy of the NBU in the context of the European integration, we will see that its conceptual foundations that were established in the 90s of the twentieth century do not meet the defined above tasks and need correcting. Now a monetary policy has a fundamentally new challenge – a monetary stimulation of the economic growth, that involves a clearer definition of the role, responsibilities and tasks of the NBU, realization of an efficient allocation of financial resources, provision of the transparency and purity of monetary processes, a shift from macrofinance to microfinance, an increased activity of the banking system for the long-term crediting and investing into a production process.

The Association Agreement between the European Union and Ukraine includes the statements that specify the introduction of the conditions that will favour the development of economic and trade relations, which will lead to the gradual integration of Ukraine into the EU domestic market, and due to the creation of a deepened and overall free-trade area, as it is entered in Title IV («Trade and trade-related matters») of the Agreement. Among these conditions there is an adduction of the monetary sphere of Ukraine to the EU common principles, rules and standards. This sphere includes banking services such as:

- 1) acceptance of deposits and other repayable funds from the public;
- 2) lending of all types, including consumer credit, mortgage credit, factoring and financing of commercial transactions;
- 3) financial leasing;
- 4) all payment and money transmission services, including credit, charge and debit cards, travellers cheques and bankers drafts;
- 5) guarantees and commitments;
- 6) trading for own account or for account of customers, whether on an exchange, in an over-the-counter market or otherwise, the following:
 - (a) money market instruments (including cheques, bills, certificates of deposit);
 - (b) foreign exchange;
 - (c) derivative products including, but not limited to, futures and options;
 - (d) exchange rate and interest rate instruments, including products such as swaps and forward rate agreements;
 - (e) transferable securities;
 - (f) other negotiable instruments and financial assets, including bullion.
- 7) participation in issues of all kinds of securities, including underwriting and placement as agent (whether publicly or

privately) and provision of services related to such issues;

8) money broking [4].

The organization and regulation of these services are delegated to the National Bank of Ukraine. However, a fundamental problem of the domestic credit policy is an isolation of the banking services from the needs of the production process. A monetary policy of the NBU in 2014 was based on several postulates:

- 1) absolutization of the principle of “expensive” money and zero inflation;
- 2) denial of the monetary emission;
- 3) absence of an alternative to a banking two-tier system.

At the same time, a struggle with the inflation was combined with the passivity of an industrial policy that raised questions about the limits of inflation, its connection with the dynamics of production and about the price that a society must pay for achieving the criteria in the monetary area of the European integration.

It is known that the conditions of joining the European Union were set up according to the “Copenhagen criteria” (June, 1993). The components of the economic criteria in the area of monetary and financial relations are the following conditions:

- the achievement of a macroeconomic stability, the elements of which are the ensurance of a price stability, public finances and external accounts;
- the existence of a broad consensus on the key components and objectives of an economic policy;
- an adequate level of the development of a financial sector which is able to convert savings into the industrial investments.

A. The Maastricht Treaty, which was signed in February 1992 and entered into force on 1 November 1993, outlined the 5 convergence criteria EU member states are required to comply with to adopt the new currency the euro. The purpose of setting the criteria was to achieve price stability within the eurozone and ensure it wasn't negatively impacted when new member states accede. The framework of the five criteria was outlined by article 109j.1 of the Maastricht Treaty, and the attached Protocol on the Convergence Criteria and Protocol on the Excessive Deficit Procedure.

Harmonised Index of Consumer Prices (HICP) (12-months average of yearly rates): Shall not exceed the HICP reference value, which is calculated by the end of the last month with available data as the unweighted arithmetic average of the similar HICP consumer price inflation rates in the 3 EU member states with the lowest HICP inflation plus 1.5 percentage points. However, EU member states with a HICP rate significantly below the eurozone average (and pre 1999 below «comparable rates in other Member States»), do not qualify as a benchmark country for the reference value and will be ignored, if it can be established its price developments have been strongly affected by exceptional factors (i.e. severe enforced wage cuts, exceptional developments in energy/food/currency markets, or a strong recession).

Government budget deficit: The ratio of the annual general government deficit relative to gross domestic product (GDP) at market prices, must not exceed 3% at the end of the preceding fiscal year (based on notified measured data) and neither for any of the two subsequent years (based on the European Commission's published forecast data).

Government debt-to-GDP ratio: The ratio of gross government debt (measured at its nominal value outstanding at the end of the year, and consolidated between and within the sectors of general government) relative to GDP at market prices, must not exceed 60% at the end of the preceding fiscal year. Or if the debt-to-GDP ratio exceeds the 60% limit, the

ratio shall at least be found to have «sufficiently diminished and must be approaching the reference value at a satisfactory pace».

Exchange rate stability: Applicant countries should not have devalued the central rate of their euro pegged currency during the previous two years, and for the same period the currency stability shall be deemed to have been stable without «severe tensions». As a third requirement, participation in the exchange-rate mechanism (ERM / ERM II) under the European Monetary System (EMS) for two consecutive years is expected, though according to the Commission «exchange rate stability during a period of non-participation before entering ERM II can be taken into account.»

Long-term interest rates (average yields for 10yr government bonds in the past year): Shall be no more than 2.0 percentage points higher, than the unweighted arithmetic average of the similar 10-year government bond yields in the 3 EU member states with the lowest HICP inflation (having qualified as benchmark countries for the calculation of the HICP reference value). If any of the 3 EU member states in concern are suffering from interest rates significantly higher than the «GDP-weighted eurozone average interest rate», and at the same time by the end of the assessment period have no complete funding access to the financial lending markets (which will be the case for as long as a country is unable to issue new government bonds with 10-year maturity – instead being dependent on disbursements from a sovereign state bailout programme), then such a country will not qualify as a benchmark country for the reference value; which then only will be calculated upon data from fewer than 3 EU member states. [6].

In the EU countries national banks applied a comprehensive complex approach to keeping an inflation within the limits set by the Maastricht criteria. In this respect, it would be appropriate for the NBU to use the experience of the EU members of the last waves of enlargement. Such cooperation would enable a more effective integration of economic conditions of Ukraine into the European economic context.

The fundamental problem of domestic monetary policy is an isolation of the monetary area from a production/industrial process which remains the main obstacle to the economic development of Ukraine and without its solution the money

will not have a positive impact on the real sector of the economy. In order to restore a functional power of monetary tools the NBU must increase the ability to provide a public trust to the monetary policy and the transparency of its activities.

In this regard some measures should be undertaken in the field of banking legislation and specification of the functions of the NBU. At the meeting of the Council of Financial Stability (Ukraine) that took place on January 29, 2016 it was notified about the change of the NBU's monetary regime and a transition to the inflation targeting. In the 2000s, one of the main arguments in favor of an inflation targeting was a definiteness of its anti-inflation goal. However, this target was feasible during a sustained economic growth when it was necessary to “cool” the national economy. But now, under the conditions of a deep economic recession, monetary limitations lost their sense. A renewal of production, as international experience shows, requires more sophisticated approaches to the objectives and instruments of the monetary policy, including an exchange rate [2].

Such objectives are specified in the Law on the National Bank, but a priority objective – an inflation one – is defined as a low inflation in the short time perspective (from 3 to 5 years) (Art. 1) and as a future inflation. In this case, legally, the National Bank is not responsible for the actual results of its activities in the 2014–2015 – a collapse of the hryvnia and a galloping inflation. So, in order to bring the legislation in line with practical needs it is necessary to bind a definition of a price stability not to the future but to the actual inflation (Art. 1). Since there is a tough dependence between an inflation and exchange rate dynamics, a list of functions of the National Bank of Ukraine (Art. 7) should include an exchange rate policy, having subjecting it to the realization of the main – anti-inflation – function of the NBU [1].

Optimization of the inflation level may become a primary measure of a monetary stimulation of the national production, which is necessary for the creation of the economic growth conditions.

Conclusions. So, a monetary policy of the NBU in terms of the Association Agreement between Ukraine and the EU should take into account the criteria of the European monetary integration and flexibly to adapt to the specific tasks facing the economy of Ukraine.

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Анотація. У роботі аналізуються проблеми вибору напрямів економічної взаємодії України та Європейського Союзу в грошово-кредитній сфері, роль Маастрихтських критеріїв економічної інтеграції. Відзначається необхідність зміни пріоритетів монетарної політики НБУ, вдосконалення банківського законодавства у відповідності з вимогами стабілізації та забезпечення умов для розвитку національної економіки.

Ключові слова: Маастрихтські критерії інтеграції, Національний банк України, монетарна політика, інфляція.

Аннотация. В работе анализируются проблемы выбора направлений экономического взаимодействия Украины и Европейского Союза в денежно-кредитной сфере, роль Маастрихтских критериев экономической интеграции. Отмечается необходимость изменения приоритетов монетарной политики НБУ, совершенствования банковского законодательства в соответствии с требованиями стабилизации и обеспечения условий для развития национальной экономики.

Ключевые слова: Маастрихтские критерии интеграции, Национальный банк Украины, монетарная политика, инфляция.